



**Comhairle nan Eilean Siar  
Internal Audit Review  
PAYROLL AND EXPENSES  
Final Report –2024/25 -02**

**23 May 2025**

**COMHAIRLE NAN EILEAN SIAR  
INTERNAL AUDIT DRAFT REPORT  
PAYROLL AND EXPENSES**

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<b>Date of Visit</b>	<b>February / March 2025</b>
<b>Draft Report Issued</b>	<b>17 March 2025</b>
<b>Management Response Received</b>	<b>22 May 2025</b>
<b>Final Report Issued</b>	<b>23 May 2025</b>

<b>Issued to:</b>	
<b>Chief Executive</b>	<b>Malcolm Burr</b>
<b>Chief Financial Officer</b>	<b>Norman Macdonald</b>
<b>Business Manager</b>	<b>Donella Brown</b>
<b>Human Resources Manager</b>	<b>Carmen MacDonald</b>
<b>External Audit</b>	<b>Martin Devenney</b>

## **SECTION 1: EXECUTIVE SUMMARY**

### **Introduction**

1.1 The Report has been prepared following an internal audit review of Payroll and Expenses as part of the operational annual internal audit plan for 2024/25. The purpose of the Report is to provide an overview of the Comhairle's arrangements for the operation and management of Payroll and Expenses. The scope of the audit included a review of the following objectives:

- The organisation demonstrates VFM in all services provided/supported and evidence that alternatives have been adequately considered, where available and appropriate;
- Policies and procedures are in place with regards to the governance of payroll, expenses and relate systems along with appropriate segregation of duties;
- Overpayments/underpayments are monitored and dealt with timely and appropriately;
- Documentation is completed for all new-starts/leavers and processed correctly and in a timely manner;
- Reconciliations take place with regards to payments made to employee, external agencies as well as between internal departments such as HR and Payroll;
- Allowances and expenses are claimed and paid in accordance with the Comhairle's current rules and regulations;
- Year-end processes are documented, with statutory returns carried out by an appropriate officer and submitted in a timely manner;
- Exception reports are in place to identify errors with appropriate actions taken; and
- Payroll uploads are completed, authorised and submitted to the payroll section in a timely manner with checks undertaken at departmental level as well as within the payroll function.

### **Background Information**

1.2 The Payroll section is located within Strategic Finance and is managed under the Chief Financial Officer. The payroll service administers seven payrolls, including one external payroll.

The payroll department manages salary processing, deduction calculations and uploads, ensuring compliance with all relevant statutory regulations. Managing payroll is a complex task governed by various laws, policies, directives, and guidelines. Given that staff costs constitute a sizeable portion of the Comhairle's expenditure, it is crucial to have strong and effective controls in place.

### **Concluding Remarks**

1.3 Our detailed findings are included in the body of the Report. We would point out that the most significant issues arising from our review which require management attention are:

- Issues with the transfer of key information between departments through the current FIN forms often resulting in overpayment and underpayments to employees;
- Current staffing levels, including current and future vacancies; and
- The updating of the Authorised Signatory List.

Following on from the cyber-attack the payroll team has gone above and beyond, demonstrating exceptional dedication and hard work. Their commitment to ensuring that everyone gets paid on time, even if it means putting in additional hours, is truly commendable. Despite the challenges, they have consistently maintained the service, showing remarkable resilience and teamwork.

**SECTION 2: RECOMMENDATIONS AND AUDIT OPINION**

2.1 We have graded our detailed findings and recommendations, based on the likelihood of the identified weakness occurring and the impact on the Comhairle if it should occur.

The following table contains the definitions applied by Internal Audit in rating audit findings/actions and the number of recommendations in each rating.

Definition of recommendation	Grade	No.
Major weaknesses that could have a significant impact on the Comhairle if not addressed and contained urgently.	High	1
Important issues relating to controls being absent, not operating as expected or could be improved.	Medium	6
The weakness is unlikely to have a material impact on the Comhairle. These are not critical but management should address.	Low	4

Where we have identified isolated exceptions in our sample testing, and we consider that they are unlikely to recur; and would have no significant impact if they should occur;

We have classified them as minor or trivial, discussed them with relevant officers and detailed them in Appendix C to the Report.

2.2 Based on the audit work carried out our overall opinion is that a **Reasonable Assurance** level of assurance can be placed upon the control environment of the service/area under review.

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

**It should be noted that our findings and conclusions are based on the information made available to us at the time of our review.**

Internal Audit  
Comhairle Nan Eilean Siar  
Sandwick Road  
Stornoway  
Isle of Lewis  
HS1 2BW

23 May 2025

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**SECTION 3 – FINDINGS, RECOMMENDATIONS AND ACTION PLAN**

GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
H1	<p>FIN forms are used to provide key information to Human Resources and Payroll:</p> <p>FIN 1 – New Appointment FIN 2 – Termination of Employment FIN 3 - Transfer of Post FIN 4 - New casual appointment FIN 6/6a/6b – Sickness Absence</p> <p>The processing of FIN forms in a timely manner continues to be an ongoing issue. This issue was previously highlighted in the Payroll and Expenses Audit 2021/22. From the previous audit it was recommended that refresher training was undertaken with Heads of Services.</p> <p>Issues with FIN forms stems from the departments not completing FIN forms fully and not submitting them within adequate timeframes.</p> <p>FIN forms are often sent to Human Resources and Payroll with incorrect information meaning they must be returned or investigated, and this causes issues with contracts, correct payment levels, underpayments, overpayments, sick payments and maternity payments.</p>	<p>Heads of service to discuss with immediate managers in their departments the importance of timely submissions of completed FIN forms and the workload this creates for other departments. This may ascertain any issues within the department that is causing FIN forms not to be processed in a timely manner.</p> <p>Human Resources and payroll to keep track of instances where departments that are not providing the correct/complete information or providing late information. Report back to the Heads of Service to manage the standard/timeliness of work performed by their departments.</p>	<p>HR currently log all incoming FINS with commencement dates, we do not currently log termination date but will add this to the list. We can look to undertake a review of submission timelines and report back to Chief Officers. Payroll may wish to log the date received and/or processed and report over/underpayments in the same way.</p>	HR Manager	TBC

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	<p>The Human Resources department is undertaking work to look at improving the FIN processes through newer digital methods.</p>	<p>Human Resources to work with Payroll and Business Support to ensure new processes will meet the requirements of the organisation and tracking can be undertaken to identify issues and bottlenecking within the process.</p>	<p>New FINs are being created with the support of IT using e-forms, this will allow some information to be automatically completed by linking in to Resourcelink e.g names, address, in addition to having fields be compulsory to complete to allow the form to be submitted, this should reduce the requirement to go back to services due to incomplete FINs.</p> <p>The longer-term strategy is the upgrading of the Resourcelink system utilising the MyView system with the intention to get FINs, Short-term sickness and unpaid leave on this.</p>	<p>HR Manager/ Payroll</p>	<p>April 2026</p>
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GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
M1	<p>At the time of writing the staffing in the payroll department is down circa 20% (from 5.15FTE to 4.26FTE) with another member of staff retiring in March 2025.</p> <p>It is important to ensure vacancies are not left unfilled for extended periods of time and that staff rotation is undertaken to ensure than more than one individual can undertake each aspect of work should anyone leave or be off long term.</p> <p>Not having enough or suitably trained staff can lead to significant risks including decreased productivity, increased employee turnover, increased errors, issues with compliance and legislation, poor service, low staff morale and excess stress on current staff.</p>	<p>Staff levels to be monitored to ensure the payroll function can operate should any or multiple members of staff leave or become unwell.</p>	<p>The department is currently undergoing a job evaluation once finalised the department will be in a position to assess the budgets available for staffing.</p>	<p>Business Manager (Strategic Finance)</p>	<p>June 2025</p>

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GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
M2	<p>The Authorised signatory information may not be up to date.</p> <p>Instances were viewed of expenses being authorised and paid when signed off by an employee that did not appear on the Authorised signatory list.</p> <p>Payroll were able to provide original paperwork evidencing the authorisers had previous authority. This would cause implications had the authorisers' privileges been removed and items continued to be signed off.</p> <p>Incorrect information could result in expenses being paid, expenses being paid in error and payroll staff having to spend additional time finding out if the authoriser has authority.</p>	<p>Authorised signatory information to be checked and brought up to date. This should be shared with the relevant departments.</p>	<p>Overall responsibility for the Authorised Signatory List does not sit with the payroll department. Payroll will review all expenses forms received and will not approve any that have not been signed in line with the Authorised Signatory List.</p>	<p>Business Manager (Strategic Finance)</p>	<p>June 2025</p>
M3	<p>It was identified that invoices were not being issued for Payroll services provided to another organisation for this financial year.</p> <p>This could result in a loss of income for the department</p>	<p>Process to be implemented to ensure invoices are raised for services provided.</p>	<p>All invoices have now been raised and a diary reminder scheduled on a monthly and quarterly basis to ensure the raising of invoices within appropriate timescales.</p>	<p>Business Manager (Strategic Finance)</p>	<p>April 2025</p>

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GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
M4	<p>Advances are additional payments made to staff. These payments are primarily made when employees' FIN forms are not received in time, incorrect information is received on FIN forms or Payroll uploads. Advances avoid employees being financially disadvantaged.</p> <p>Over the period Dec 23-Dec 24 advances of £106,529.57 were made affecting 142 employees.</p> <p>Most of the advances in 2024 were due to errors by the departments (circa 70%) and were related to issues with upload sheets not being completed correctly and FIN forms not being processed in a timely manner.</p> <p>The three main departments requiring advances were H&amp;SC and ES&amp;CS. These department do tend to have a higher level of staffing and turnover than other departments.</p> <p>This is a chargeable service. Current policies advise that payroll can charge the department £50 for each advance. This rate has not been reviewed in several years and this charge is not being applied.</p>	<p>Departments to ensure FIN forms are completed within a timely manner and secondary checks are undertaken by managers when signing of upload forms to avoid the need for advances to employees.</p> <p>Chargeable rate to be assessed and charges to departments advances to be implemented as per the policy.</p>	<p>A quarterly inter department charging system will be implemented.</p>	<p>Business Manager (Strategic Finance)</p>	<p>June 2025</p>

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M5	<p>Seventy-five individuals have been recorded as being overpaid since January 2024 totalling over £117,000. This includes errors from the payroll department (2) cyber related errors (4) and the (18) due to issues with FIN forms not being received/processed in time.</p> <p>Overpayments cause a great deal of work for the payroll and debtor departments as they spend time and resources trying to recover the debt caused by departmental errors.</p> <p>Eighteen overpayments exceeded £2000. From this, five staff members have repaid in full, five are being repaid and eight are outstanding.</p> <p>The largest overpayments were from Education, these were £11,334.85 (outstanding) and £9,608.14 (repaid) and were due to FIN 2 forms not being completed and submitted in a timely manner.</p>	<p>Managers to reiterate the importance of ensuring FIN forms are processed in a timely manner.</p> <p>Consideration be given to the implementation of charges in relation to remediation work for overpayment as this is more costly to the Comhairle than making advances.</p>	<p>Consideration will be given to a quarterly inter department charging system.</p>	<p>Business Manager (Strategic Finance)</p>	<p>June 2025</p>

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M6	<p>A sample of payroll uploads were checked at departmental level to ensure the information supplied to payroll upload is complete and correct.</p> <p>No issues were found with Janitors, Home Care or supply E-Sgoil uploads. It was discovered that the supply Primary had one employee who had not paid for 5 hours. This has now been rectified.</p> <p>TACUN Care Home were found to be using two different timesheets, the timesheets were often not fully completed, worked hours on some timesheets were difficult to read, timesheets were not signed off by appropriate managers, hours were incorrect/wrongly added and double counting of hours on an upload was also viewed for a member of staff. These findings have been discussed with the authorising manager.</p> <p>Departmental checks need to be more stringent. This should not be viewed as a “tick box” exercise and due attention should be taken to ensure that information is being input to the uploads is correct.</p>	<p>Communication to be issued advising that authorising managers of payroll uploads are signing to advise that the information presented to payroll is accurate, correct and has been checked.</p>	<p>An email reminder will be issued on a monthly basis.</p>	<p>Business Manager (Strategic Finance)</p>	<p>June 2025</p>

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GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
L1	<p>The payroll end of year checklist was not fully completed. On three occasions it had been dated with the incorrect year and some boxes remained blank.</p> <p>It was advised that all checks had been undertaken and the errors were typing errors.</p>	<p>End of year checklists used by the Payroll to be fully completed and dated with the correct year. If boxes are not completed an annotation to advise why this has not been undertaken.</p>	<p>Agreed and implemented</p>	<p>Business Manager (Strategic Finance)</p>	<p>June 2025</p>
L2	<p>Thirty-nine employees' expenses were sampled. Twenty-four out of the thirty-nine had small errors discovered during the audit, these included:</p> <ul style="list-style-type: none"> <li>• payments made out with the 2-month period.</li> <li>• incorrect mileage amount claimed.</li> <li>• incorrect mileage calculations</li> <li>• incorrect mileage amounts due to wrong form being used.</li> <li>• incorrect classifications - items being approved in wrong category (suncream under lunch code).</li> <li>• switch card receipts were accepted instead of itemised receipts/till receipts.</li> <li>• one occasion showed a member of staff signing on behalf of the manager (P.P.) unable to identify authorising member due to the signature.</li> </ul>	<p>Payroll to input date on the Claim form for Refund of Expenses and ensure departments are aware of the correct form to be used going forward.</p> <p>Payment of expenses should not be made and should be returned if incorrect forms are completed.</p> <p>Managers submitting forms to payroll to ensure correct forms are completed in full, claims are in date, milage is calculated correctly at the correct amount and correct associated documentation is provided.</p>	<p>The newest version of the form has been updated on the intranet site. Some staff are continuing to use historic forms.</p> <p>Managers should be checking the correct forms are being completed to allow the payroll function to assess the correct information has been input.</p>	<p>Business Manager (Strategic Finance)</p>	<p>April 2025</p>

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L3	<p>Members expenses were also audited for the previous 12-month period. On one occasion the expenses for a member had been missed from the upload and not been paid. Other small issues included.</p> <ul style="list-style-type: none"> <li>• one instance of mileage claimed outwith the two-month period.</li> <li>• three occasions of switch receipts being accepted.</li> <li>• several small issues with incorrect payment being calculated for Broadband and line rental. The majority were under £2 and two were under £20. These were due to the reading of the billing information.</li> </ul>	<p>Authorising manager to double check all members are added to the payroll upload and all documentation is correct.</p>	Agreed	Governance and Elections Manager	May 2025
L4	<p>The payroll system with its current licence can hold up to 4000 active employees and currently the system is at 3590. Payroll are finding a high level of relief staff are remaining on the system when they are no longer undertaking hours for the Comhairle.</p> <p>This could result in the Comhairle holding personal information that is not required and possibly breaching GDPR regulations. This could result in extra cost to increase system capabilities that is not required.</p>	<p>Payroll to send full relief lists to Heads of Service to remove any employees that no longer plan to undertake hours.</p> <p>Managers to undertake periodic checks to fully close off leaver and relief staff that are no longer undertaking shifts.</p>	<p>Payroll have updated this process to make it easier for managers to have historic employees removed. More compliance from managers is required in this area.</p> <p>A list of inactive employees is sent out on an annual basis to manager and this will continue.</p>	Business Manager (Strategic Finance)	Ongoing

## **RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT**

### **Responsibility in Relation to Internal Controls**

It is the responsibility of the Comhairle's management to maintain adequate and effective financial systems and to arrange for a system of internal controls. Our responsibility as internal auditors is to evaluate the financial systems and associated internal controls. In practice, we cannot examine every financial implication and accounting procedure within an activity, and we cannot substitute for management's responsibility to maintain adequate systems of internal controls over financial systems. We therefore may not identify all weaknesses that exist in this regard.

It is the responsibility of the Comhairle's management to consider the detailed findings of this Report, where such findings have a specific impact on risk registers. This may include a risk that has not yet been identified, or current risk controls which may be required to be updated to reflect any changes as a result of the findings contained in this report.

### **Responsibilities in Relation to Fraud and Corruption**

The prime responsibility for the prevention and detection of fraud and irregularities rests with management. They also have a duty to take reasonable steps to limit the opportunity for corrupt practices. It is our responsibility to review the adequacy of these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity may have occurred and remained undetected.

We nevertheless endeavour to plan our internal audit work so that we have reasonable expectation of detecting material fraud, but our examination should not be relied upon to disclose all such material frauds that may exist.

**DEFINITION OF AUDIT OPINIONS AND RATINGS**

The standard definitions for internal audit assurance over an engagement are as follows:

<b>Level of Assurance</b>	<b>Definition</b>
Full Assurance	Internal control, governance and risk management are of a high standard. A sound system of control to achieve the system objectives exists and the controls are being consistently applied.
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

**ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES AND CONTROLS**

<b>ITEM</b>	<b>ISOLATED EXCEPTION</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED Y/N</b>	<b>DATE OF DISCUSSION</b>
1.	Staff member password was not due to expire for 999 days. This has been reduced to an acceptable timeframe.	Emma Sinclair	Y	01 March 2025